

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

Author: Daucher Analyst: LuAnna Hass Bill Number: AB 1383

Related Bills: See Prior Analysis Telephone: 845-7478 Amended Date: May 16, 2001

Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Personal Exemption Credit For Dependents May Be Divided Equally Between The Parents

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

X FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS AMENDED April 16, 2001, STILL APPLIES.

OTHER - See comments below.

SUMMARY

This bill would allow divorced or separated parents to divide the dependent exemption credit equally.

SUMMARY OF AMENDMENT

The May 16, 2001, amendments removed the bill's provisions that would have allowed all parents to divide the dependent exemption credit equally and replaced them with language supplied by the department that would:

- allow the dependent exemption credit in the case of a child of divorced or separated parents to be divided equally between the two parents;
- define child and parents by references to the Internal Revenue Code (IRC); and
- require the parent entitled to the exemption under federal law to sign and provide to the Franchise Tax Board (FTB) an irrevocable written declaration agreeing not to claim more than one half of the credit. The declaration must be in a manner as FTB prescribes by forms or instructions.

Except for an updated revenue estimate and a technical concern, the department's analysis of the bill as amended April 16, 2001, still applies. The following implementation consideration still applies and is included below for convenience.

Board Position:

<u> </u> S	<u> </u> NA	<u> </u> NP
<u> </u> SA	<u> </u> O	<u> </u> NAR
<u> </u> N	<u> </u> OUA	<u> X </u> PENDING

Legislative Director

Date

Brian Putler

06/08/01

POSITION

Pending.

Summary of Suggested Amendments

Amendment 1 would address the department's technical concern.

IMPLEMENTATION CONCERNS

The bill allows parents to divide the state dependent exemption credit of a child. However, it does not make that child the dependent of either parent for other state tax purposes such as the dependent care credit or head of household filing status.

TECHNICAL CONSIDERATION

Amendment 1 is provided to correct a reference to a section of the IRC.

ECONOMIC IMPACT

Revenue Estimate

Based on the data and assumptions below, revenue losses are estimated as follows:

Estimated Revenue Impact Taxable Years Beginning On or After January 1, 2001 Enactment Assumed After June 30, 2001 Fiscal Years (In Millions)			
	2001-2	2002-3	2003-4
Dependent Credit Split	-\$5.4	-\$5.6	-\$5.9

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

The impact of this bill would depend on the number of nontaxable parents relinquishing 50% of a dependent credit to the other parent. It is assumed that the relinquishing parent would remain nontaxable after transferring 50% of the dependent credit. The transfer of 50% of a dependent credit between parents who both have tax liabilities to offset would not generate a revenue loss under this bill as amended.

This revenue estimate is based on the department's latest personal income tax model. The number of nontaxable filers who would remain nontaxable if they were to give up 50% of one dependent credit, approximately 325,000, were identified. Based on the amendment, the 325,000 identified taxpayers were reduced to exclude parents that are not divorced or legally separated.

Approximately 32% of California children are born to parents that are not divorced or legally separated. Therefore, 32% or 104,000 taxpayers were excluded from the identified universe, leaving approximately 221,000 nontaxable filers projected to qualify for and take advantage of this proposal.

It is assumed that nontaxable filers who could presently transfer an entire dependent credit to the other parent under current law, and remain nontaxable, would not take advantage of the transfer allowed under this bill and were excluded from the identified universe. Based on information from the U.S. Statistical Abstract and in-house sources, it is assumed that 20% of the identified nontaxable filers would transfer 50% of a dependent credit, or \$122, to the other parent and that the other parent would be able to offset their tax liability with the credit.

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FRANCHISE TAX BOARD'S
PROPOSED AMENDMENTS TO AB 1383
As Amended May 16, 2001

AMENDMENT 1

On page 3, line 33, strikeout "151(e)" and insert:

152(e)